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DE RUEHOT #2278 3522148  
ZNR UUUUU ZZH  
P 182148Z DEC 07 ZDK  
FM AMEMBASSY OTTAWA  
TO RUEATRS/DEPT OF TREASURY WASH DC PRIORITY  
RUEHC/SECSTATE WASHDC PRIORITY 7044  
INFO RUCNCAN/ALL CANADIAN POSTS COLLECTIVE PRIORITY  
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY

UNCLAS OTTAWA 002278

SIPDIS

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STATE PASS WHA/CAN, EEB/IFD, AND L/EEB  
TREASURY FOR ALICE FAIBISHENKO, JOHN HARRINGTON, AND DAVID  
SOTOS

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [ETRD](#) [CA](#) [US](#)

SUBJECT: CANADA COMPLETES WORK ON BILATERAL TAX TREATY  
PROTOCOL

1. ON DECEMBER 14, FINANCE MINISTER FLAHERTY ANNOUNCED THAT, AS A RESULT OF BILL S-2 RECEIVING ROYAL ASSENT, THE CANADIAN GOVERNMENT HAS NOW COMPLETED THE STEPS REQUIRED IN CANADA TO GIVE EFFECT TO THE FIFTH PROTOCOL TO THE CANADA-UNITED STATES INCOME TAX CONVENTION. THE PROTOCOL WILL COME INTO EFFECT ONCE IT HAS BEEN RATIFIED BY THE UNITED STATES AND THE TWO COUNTRIES HAVE FORMALLY NOTIFIED EACH OTHER THAT THEIR PROCEDURES ARE COMPLETE.

2. "MODERNIZING THIS LONG-STANDING TREATY WILL ENCOURAGE FURTHER TRADE AND INVESTMENT IN CANADA AND THE UNITED STATES AND HELP US TO BETTER COMPETE IN THE GLOBAL ECONOMY," MINISTER FLAHERTY TOLD THE PRESS. "I AM HOPEFUL THAT THE U.S. WILL SOON RATIFY THE PROTOCOL SO THAT INDIVIDUALS AND BUSINESSES ON BOTH SIDES OF THE BORDER, INCLUDING MANUFACTURERS, CAN REALIZE THAT SIGNIFICANT BENEFITS OF THE UPDATED TREATY." HE ADDED THAT "IN THIS HIGHLY COMPETITIVE GLOBAL ECONOMY, WE NEED TO CONTINUALLY EXPLORE WAYS TO GROW, EXPAND, AND COMPETE. FURTHER IMPROVING AND REFINING OUR RELATIONSHIP WITH THE UNITED STATES, OUR LARGEST TRADING PARTNER, IS ESSENTIAL. THE FIFTH PROTOCOL TO THE CANADA-U.S. TAX TREATY IS ABOUT LOOKING AHEAD AND BEING INNOVATIVE.

3. THE AGREEMENT TO MODIFY THE 1980 INCOME TAX CONVENTION WAS SIGNED ON SEPTEMBER 21 BY MINISTER FLAHERTY AND TREASURY SECRETARY PAULSON. ACCORDING TO THE FINANCE CANADA PRESS

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RELEASE, KEY MEASURES OF THE FIFTH PROTOCOL INCLUDE:

- ELIMINATING WITHHOLDING TAXES ON CROSS-BORDER INTEREST PAYMENTS;
- EXTENDING TREATY BENEFITS TO LIMITED LIABILITY COMPANIES;
- ALLOWING TAXPAYERS TO REQUIRE THAT CERTAIN KEY DOUBLE TAXATION ISSUES, SUCH AS TRANSFER PRICING, BE SETTLED THROUGH ARBITRATION;
- ENSURING THAT THERE IS NO DOUBLE TAXATION ON EMIGRANTS' GAINS;
- GIVING MUTUAL TAX RECOGNITION OF PENSION CONTRIBUTIONS; AND
- CLARIFYING HOW STOCK OPTIONS ARE TAXED.

4. THE FULL TEXT OF THE PROTOCOL, TWO DIPLOMATIC NOTES SETTING OUT MORE TECHNICAL ASPECTS OF THE AGREEMENT AND A BACKGROUNDER PREPARED BY FINANCE CANADA CAN BE VIEWED ON THE FINANCE CANADA WEBSITE ([WWW.FIN.GC.CA](http://WWW.FIN.GC.CA)).

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